

Michigan Education Trust

Plan D

Actuary's Report

September 30, 2004

December 2004

December 21, 2004

Mr. Jay B. Rising
Chairman of the Board of Directors of the
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

Dear Mr. Rising:

PricewaterhouseCoopers LLP (PwC) in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of Plan D (MET II) of the Michigan Education Trust (MET or the Trust), at the request of the Trust as of September 30, 2004. The valuation is based on data furnished by MET regarding the contracts in force as of September 30, 2004; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, and 2005 enrollments.

This report presents the results of the valuation of the assets and liabilities of MET II in compliance with Act Number 316 of the Public Acts of 1986 and contains information required for financial statement purposes.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

This report is prepared for the internal use of the Michigan Education Trust. Any external use or distribution of this report is not authorized without prior written approval of PwC.

Respectfully submitted,

Steven A. Skov, ACAS, MAAA
Director, PricewaterhouseCoopers LLP

Richard M. Kaye
Richard M. Kaye & Associates
Consultant to PricewaterhouseCoopers LLP

Michigan Education Trust

Plan D

Actuary's Report

Contents

	<u>Page</u>
Section I Summary	1
Section II Measurement of Actuarial Soundness	6
Section III Assets	7
Section IV Contract Data	9
Section V Assumptions and Methods	15
Section VI Contract Provisions Valued	19

SECTION I -- SUMMARY

This report presents the results of the September 30, 2004, actuarial valuation of Plan D of the Michigan Education Trust. The valuation is based on contract data provided by MET and unaudited financial information provided by MET.

This section presents a summary of the valuation results and the funded status of Plan D at September 30, 2004.

A. Actuarial valuation highlights

- | | |
|---|---------------|
| 1. Net market value of assets and present value of future collections * | \$331,568,463 |
| 2. Present value of future benefits and expenses | \$367,431,042 |

Assuming the fund earns 7.25 percent

B. Funded Status

In our opinion, the best estimate of the funded status of MET II is to compare the market value of assets plus the present value of future collections with the present value of future benefits and expenses assuming the fund earns 7.25 percent compounded annually. Accordingly, in our opinion, based upon the assumptions and methods stated in Section V and further described in the following section, as of September 30, 2004, the program shows an unfunded liability of \$ 35,862,579 (A-1 less A-2). The program is 90.2 % funded and is expected to pay benefits through 2020 even if no new contracts were issued. It is important to note that it is intended that new contracts will be offered during 2005 and in future years.

* Using market value of Treasury bonds and equity mutual funds.

Please note that the unfunded liability increased from last year. The primary reasons for the change are a)-the updating of contract data from last year, b)- the updating of the actuarial assumptions for interest earnings, and c)- interest earnings in the last year less than expected; offset somewhat by a)- tuition and fee increases in the last year less than expected, and b)- delayed usage of contracts compared to that expected.

SECTION I -- SUMMARY

(continued)

C. Assumptions

This valuation is based on the assumptions and methods stated in Section V.

It should be kept in mind that the soundness determination of MET is based upon many assumptions. There is considerable uncertainty surrounding the significant factors that affect the solvency of the Trust.

The most important assumptions are the discount rate, the rate of increase in tuition, and the selection against the Trust by purchasers and beneficiaries. The discount rate utilized was based upon analysis prepared by the Michigan Department of Treasury, Bureau of Investments and approved by the Board. The other assumptions were adopted by the MET Board based upon an analysis of alternatives presented by PricewaterhouseCoopers LLP.

It is premised that expected benefit payments will be diversified in duration to allow MET to invest at the assumed investment yield. It is also premised that MET will be able to liquidate its investments in order to meet future benefit payments while still earning the investment yields that are assumed within this report. Any deviation in the actual investment yield from the expected investment yield may materially affect the conclusions within this report.

Investment Yield

The investment yield is the long-term earnings rate expected from the assets of the Trust. The investment yield is net of any investment expenses charged to the Trust.

MET's investment policy objectives include: the avoidance of volatility; the preservation of the real value of the fund; and the maximization of the expected yield. The investments consist of an immunizing portfolio of zero coupon Treasury bonds and an equity mutual fund. The equity mutual fund investment objective is to outperform Standard & Poor's 500 Stock Index.

The investment yield assumption is based on the earnings of this portfolio together with estimates of the yields that will be available on reinvestment of income. It is slightly less than the assumption the Board utilized for the most recent pricing.

Exemption from Federal Income Taxation of the Trust

Section 529 of the Internal Revenue Code, added by the Small Business Job Protection Act of 1996, H.R. 3448, exempts Qualified Tuition Plans from Federal income tax. MET has received a determination letter from the IRS stating that MET meets the Section 529 requirements.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is not liable for Federal income taxes. The Internal Revenue Service refunded taxes paid for the years ended in 1988 through 1995.

SECTION I -- SUMMARY

(continued)

Rate of Increase in Tuition

The amount paid for each beneficiary who uses a full benefits contract to attend a four-year State Institution of Higher Education will be the resident undergraduate tuition plus mandatory fees (in this section, “tuition plus mandatory fees” will hereinafter be referred to as “tuition”). Tuition increases reflect effective management of the schools as well as general inflation, the rate of increase in state support and real improvements in the quality of educational services. Based on careful analysis, the MET Board adopted a tuition increase assumption allowing for improvement in the quality of education above an expected rate of inflation.

The tuition increase assumption adopted by the MET Board is 7.00% for 5 years and 7.30% thereafter. It is the same assumption the Board utilized for the most recent pricing.

New Contracts in Future Years

New contracts in future years serve: a) to expand the base for spreading fixed expenses; b) to increase the likelihood that the MET average tuition cost will not exceed Weighted Average Tuition (WAT) by a significant amount; and c) to ensure a large enough fund balance to invest profitably.

SECTION I -- SUMMARY

(continued)

Selection Against the Trust by Purchasers and Beneficiaries

A basic reason for establishing MET is that the purchase of a contract will increase the commitment of the purchaser to a belief the beneficiary will become qualified to enter college; and that the ownership of a contract will cause the beneficiary to be comfortable with a commitment to academic achievement. (This linkage is sometimes referred to as the "Lang effect", after the philanthropist who guaranteed college tuition for a class of students at his alma mater elementary school.)

Selection against the Trust may cause the amount MET pays to exceed WAT. WAT is measured by weighting the tuition at each school by the number of full-time equated Michigan students at that school. The tuition MET pays will equal the WAT if MET beneficiaries attend the Michigan schools in the same proportions as all Michigan students. On the other hand, if for example, all MET beneficiaries were to attend the University of Michigan, MET would pay tuition much higher than the WAT. Selection refers to the degree to which the MET beneficiaries choose to attend the higher priced schools, and so cause MET to pay out more tuition benefits.

The cost of selection against the Trust by beneficiaries who attend the Michigan public schools is offset somewhat by gains from contracts that are terminated. The payments on contracts that are terminated generally are of lower value than the payments on contracts used to attend the Michigan public schools.

In addition to the key assumptions discussed above and in Section V, the following important assumptions are subject to uncertainty that can be resolved only through the development of meaningful experience in the operation of MET.

This report assumes that the contract provisions applicable to these 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, and 2005 enrollments and the Federal income tax status of the Trust will remain the same and will not be changed through State or Federal legislation or regulation. However, the MET Act and Federal tax laws are subject to change.

The tuition structure and other characteristics of the future higher education system used by MET beneficiaries will be identical to the system of the 1990's.

D. Actuarial Method

The primary purpose of this Actuary's Report is to attest to the actuarial soundness of the Trust. The method used should be sensitive to long-term trends in the rate of increase in tuition and investment income. It should allow year-to-year fluctuations in experience. The method must be adaptable to a growing Trust, and be such that it will be accepted as a reasonable standard.

The method used in this actuary's report is described in Section V.

SECTION I -- SUMMARY

(continued)

E. Historical Summary as of September 30, 2004

<u>Number of Contracts</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Lump Sum					
Full benefits	9,280	7,878	5,590	3,706	2,642
Limited benefits	2,597	2,265	1,631	1,151	897
Community college	948	842	677	510	366
Monthly Purchase					
Full benefits	4,256	3,867	2,979	1,815	957
Limited benefits	1,196	1,067	837	520	301
Community college	<u>815</u>	<u>697</u>	<u>512</u>	<u>315</u>	<u>167</u>
Total	<u>19,092</u>	<u>16,616</u>	<u>12,226</u>	<u>8,017</u>	<u>5,330</u>

Assets

Market value	<u>\$331,568,463</u>	<u>\$273,352,967</u>	<u>\$193,490,920</u>	<u>\$127,290,683</u>	<u>\$87,178,353</u>
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SECTION II – MEASUREMENT OF ACTUARIAL SOUNDNESS

The following table sets forth the Trust's funded status at September 30, 2004:

1.	Present value of future benefits and expenses, assuming the market value of assets earns 7.25% compounded annually*	\$367,431,042
2.	Net market value of assets and present value of future collections	<u>\$331,568,463</u>
3.	Surplus (Unfunded Liability) as of September 30, 2004 = (2) less (1)	<u>\$(35,862,579)</u>

* This figure, which is based on the actuarial assumptions set forth in Section V, represents the net market value of assets required as of September 30, 2004, to provide the benefits and expenses of the program as they become due.

SECTION III -- ASSETS

A. Summary of Assets at September 30, 2004

1. Cash and cash equivalents	\$	3,520,693
2. Investments		
a. Short-term investments	\$	55,346,000
b. Unamortized discount on short-term investments		(1,009,370)
c. Bonds		157,188,854
d. Equity mutual funds		63,151,228
Total investments	\$	274,676,712
3. Receivables		
a. Advances to state general fund	\$	-
b. Interest and dividends receivable		1,248,907
c. Tuition contracts receivable		53,167,555
d. Due from others		-
Total receivables	\$	54,416,462
4. Liabilities		
a. Undisbursed charitable tuition	\$	-
b. Compensated absences		-
c. Due to vendors and contract purchasers		-
d. Due to MET program (Plans B & C)		1,045,404
Total liabilities	\$	1,045,404
5. Net assets = (1) + (2) + (3) - (4)	\$	331,568,463

SECTION III – ASSETS

(continued)

B. Changes in the value of assets during the year ended September 30, 2004

1. Value of assets at beginning of year	\$ 273,352,967
2. Changes during year	
a. Additions	
(1) Investment income	\$ 5,664,193
(2) Miscellaneous income	206,574
(3) Net gain on sale of security	646,107
(4) Monthly Tuition Contract Receipts	17,850,635
(5) Lump sum contact receipts- 2004	31,479,436
Total additions = (1) + (2) + (3) + (4) + (5)	<u>\$ 55,846,945</u>
b. Deductions	
(1) Administrative and other expenses	\$ 1,055,887
(2) Amounts paid under contracts	
(a) Tuition benefits	2,995,306
(b) Termination benefits	
[1] Paid to schools	338,569
[2] Loan defaults/Death refunds	4,918
[3] Paid to refund designee	490,728
Total termination benefits	<u>\$ 834,215</u>
Total paid under contracts = (a) + (b)	<u>\$ 3,829,521</u>
Total deductions = (1) + (2)	<u>\$ 4,885,408</u>
c. Unrealized appreciation (depreciation)	\$ 7,253,959
Net increases (decreases) during year = a - b + c	<u>\$ 58,215,496</u>
Net market value of assets at end of year = 1 + 2	<u><u>\$ 331,568,463</u></u>

SECTION IV – CONTRACT DATA

A. Contract Data Summary

	<u>Lump Sum</u>			<u>Monthly Purchase</u>			
	<u>Full Benefits</u>	<u>Limited Benefits</u>	<u>Community College</u>	<u>Full Benefits</u>	<u>Limited Benefits</u>	<u>Community College</u>	<u>Total</u>
Total as of September 30, 2003	7,878	2,265	842	3,867	1,067	697	16,616
Adjustment for prior years	36	9	(1)	(70)	(9)	(6)	(41)
Contracts Issued	1,406	365	118	465	139	127	2,620
Contracts paid in full*	<u>(40)</u>	<u>(42)</u>	<u>(11)</u>	<u>(6)</u>	<u>(1)</u>	<u>(3)</u>	<u>(103)</u>
Total as of September 30, 2004	<u>9,280</u>	<u>2,597</u>	<u>948</u>	<u>4,256</u>	<u>1,196</u>	<u>815</u>	<u>19,092</u>

* See C., page14.

SECTION IV – CONTRACT DATA

(continued)

B. Contracts in Payment Status as of September 30, 2004

	Full Benefits Contracts	Limited Benefits Contracts	Community College Contracts	Total
1. Michigan Public College				
Central Michigan University	15	10	0	25
Eastern Michigan University	5	9	0	14
Ferris State University	4	6	0	10
(Kendall Art & Design of Ferris)	1	2	0	3
Grand Valley State University	7	15	0	22
Lake Superior State University	1	0	0	1
Michigan State University	67	41	0	108
Michigan Technological University	1	4	0	5
Northern Michigan University	1	1	0	2
Oakland University	8	13	0	21
Saginaw Valley State University	0	2	0	2
University of Michigan-Dearborn	5	4	0	9
University of Michigan-Flint	3	1	0	4
University of Michigan-Ann Arbor	93	28	0	121
Wayne State University	4	3	0	7
Western Michigan University	<u>35</u>	<u>39</u>	<u>0</u>	<u>74</u>
Total Michigan Public College	<u>250</u>	<u>178</u>	<u>0</u>	<u>428</u>
2. Michigan Community College				
Alpena Community College	0	0	0	0
Bay De Noc Community College	0	0	1	1
Delta College	1	1	1	3
Glen Oaks Community College	0	0	0	0
Gogebic Community College	0	0	0	0
Grand Rapids Junior College	1	0	2	3
Henry Ford Community College	2	1	2	5
Jackson Community College	0	1	1	2
Kalamazoo Valley Community College	3	2	1	6

SECTION IV – CONTRACT DATA

(continued)

B. Contracts in Payment Status as of September 30, 2004

	Full Benefits Contracts	Limited Benefits Contracts	Community College Contracts	Total
Kellogg Community College	0	1	2	3
Kirtland Community College	0	0	0	0
Lake Michigan Community College	0	1	0	1
Lansing Community College	1	4	3	8
Macomb County Community College	0	0	4	4
Mid-Michigan Community College	0	0	0	0
Monroe Community College	0	0	0	0
Montcalm Community College	0	0	0	0
Mott Community College	0	2	1	3
Muskegon Community College	0	0	0	0
North Central Michigan College	1	1	0	2
Northwestern Michigan College	1	1	0	2
Oakland Community College	5	0	2	7
Schoolcraft College	2	1	2	5
Southwestern Michigan College	0	0	0	0
St. Clair County Community College	0	0	3	3
Washtenaw Community College	0	1	3	4
Wayne County Community College	0	0	1	1
West Shore Community College	0	0	1	1
Total Community College	<u>17</u>	<u>17</u>	<u>30</u>	<u>64</u>
Total Active Contracts	<u>267</u>	<u>195</u>	<u>30</u>	<u>492</u>

SECTION IV – CONTRACT DATA

(continued)

B. Contracts in Payment Status as of September 30, 2004

	Full Benefits	Limited Benefits	Community College	Total
3. Terminations in Progress				
Reason:				
Private College	18	19	4	41
Out of State/Pay School	43	8	1	52
Out of State/Pay Refund	1	4	0	5
Full Scholarship	11	5	0	16
Not Attending School	12	6	0	18
Attend 4-year college with Community College Contract	0	0	19	19
Attend Community College with Full Benefits Contract	0	2	0	2
Military Termination	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Terminations:	<u>85</u>	<u>44</u>	<u>24</u>	<u>153</u>
 Grand Total, Contracts in Payment Status	 <u>352</u>	 <u>239</u>	 <u>54</u>	 <u>645</u>

SECTION IV – CONTRACT DATA

(continued)

C. Contracts Paid in Full in the Year Ending September 30, 2004

	Lump Sum			Monthly Purchase			Total
	Full Benefits	Limited Benefits	Community College	Full Benefits	Limited Benefits	Community College	
1. Attended Public Colleges	26	32	5	4	0	0	67
2. Terminations							
Private Colleges	1	2	1	0	1	0	5
Out-of-State/Pay College	6	5	0	0	0	1	12
Out-of-State/Pay Refund Designee	3	0	0	0	0	0	3
Full Scholarship	0	0	0	0	0	0	0
Not Attending College	4	3	1	2	0	2	12
Death	0	0	0	0	0	0	0
Attending 4- year College with Community College Contract	0	0	4	0	0	0	4
Attending Community College with Full Benefits Contract	0	0	0	0	0	0	0
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Terminations	<u>14</u>	<u>10</u>	<u>6</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>36</u>
Total Contracts Paid in Full	<u>40</u>	<u>42</u>	<u>11</u>	<u>6</u>	<u>1</u>	<u>3</u>	<u>103</u>

SECTION IV – CONTRACT DATA

(continued)

D. Active Monthly Purchase Contracts

	Full Benefits Contracts	Limited Benefits Contracts	Community College Contracts	Total
Active Purchasers as of September 30, 2003	3,255	904	581	4,740
Adjustment for prior years	(85)	(17)	(14)	(116)
Contracts Issued in 2004	490	147	134	771
Purchases Completed	(201)	(43)	(42)	(286)
Discontinued	<u>(103)</u>	<u>(18)</u>	<u>(18)</u>	<u>(139)</u>
Active Purchasers as of September 30, 2004	<u>3,356</u>	<u>973</u>	<u>641</u>	<u>4,970</u>

SECTION V -- ASSUMPTIONS AND METHODS*

I. Actuarial Assumptions

A. Discount Rate Applied to Expected Future Cash Flows to Determine Present Value

1. Assumption – Investment yield relating to market value of assets – 7.25%, a decrease from the 8.10% utilized last year.
2. Basis – The MET Board adopted this assumption as the rate to approximate the expected investment yield over the lifetime of the present contracts.

B. Tax Status

1. Assumption -- MET is exempt from Federal income tax.
2. Basis -- On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is not liable for Federal income taxes. The Internal Revenue Service refunded taxes paid for the years ended in 1988 through 1995.
3. Comment -- Future Federal income tax law changes may affect the taxation of the Trust.

C. Bias -- (e.g., disproportionate use of University of Michigan and Michigan State University)

1. Assumption --
 - a. MET will pay tuition benefits that equal 110.0% of MET WAT.
2. Basis -- Analysis of MET I experience through 2004.
3. Comment -- Could be higher, but facts that may prevent higher rate:
 - a. High acceptance standards at University of Michigan (e.g., compared to highest priced school in Ohio and Alabama).
 - b. Limit as to how many may attend University of Michigan and Michigan State University.

* Also, see Section I.C. Assumptions, beginning on page 2.

SECTION V -- ASSUMPTIONS AND METHODS

(continued)

D. Contract terminations

1. Assumption

Use of Contracts

Four-year state schools	70%
Death and disability	1%
Michigan independent	6%
Out-of-state	6%
Scholarship	7%
Community College	7%
No college	<u>3%</u>
	100%

2. Basis -- No longitudinal data on Michigan residents -- based in part on student head counts.

3. Comment -- The pattern of contract use is significant for the valuation because the amount paid by MET is less for terminations than for use at four-year Michigan public schools. See Section VI -- Contract Provisions Valued.

We expect the pattern of contract use to shift toward a smaller portion of use for younger beneficiaries, because the purchaser's knowledge about the beneficiary's prospective career and education is less for younger beneficiaries.

E. New Contracts --intended to sell contracts at about present level

F. Expenses

1. Assumption -- \$810,000 annually (increasing 3.5% a year for inflation).

2. Basis -- Budgeted expenses for Fiscal Year 2004-2005.

3. Comment -- Consistent with recent experience.

SECTION V -- ASSUMPTIONS AND METHODS

(continued)

G. Use of Credits

1. Assumption

Percentage of credits remaining per numbers of years purchased

<u>Age</u>	<u>Balance of Credits</u>			
	4 yrs purchase	3 yrs purchase	2 yrs purchase	1 yr purchase
18 & Under	100%	100%	100%	100%
19	76%	67%	55%	15%
20	52%	42%	25%	5%
21	32%	24%	10%	0%
22	14%	12%	5%	
23	7%	5%	0%	
24	4%	2%		
25	2%	0%		
26	1%			
27	0%			

2. Basis -- To be conservative (but see 3 below)

3. Comment -- Students can be expected to delay use, thus providing a benefit to MET. However, an offsetting factor seems to be developing as a meaningful number of students who attend schools with block pricing take the minimum number of credits each term to enable them to remain full-time.

SECTION V -- ASSUMPTIONS AND METHODS

(continued)

H. Tuition Increase Assumption

1. Assumption – 7.00% for 5 years, and 7.30% thereafter.
2. Basis for Assumption -- the MET Board approved this assumption.

I. Loadings to Reflect Experience

We now have enough experience of beneficiaries attending school under a MET contract to analyze whether two features of the program will likely cause greater payments than expected. These two features are a)- the ability of a beneficiary to attend a school for which block pricing is in effect resulting in the possibility of having the program pay for more years than purchased and b)- the ability of a beneficiary to have more than 120 hours covered (even though, for example, four years of coverage was purchased) due to being in a specific program requiring more than 120 hours for an undergraduate degree (e.g. Engineering). We have determined that an appropriate load on liabilities to reflect these features to be 2.0%.

II. Actuarial Method

The present value of future benefits is determined by projecting the weighted average tuition cost including mandatory fees at the assumed annual rate of increase and then calculating the expected present value of the future distributions from the Trust based on the investment income and discount rate assumptions.

The value of the Trust assets is determined by the Trust. In the September 30, 2004 valuation, the assets consist primarily of U.S. Treasury zeroes and an equity mutual fund.

The present value of future benefits is compared to the value of assets. In this valuation, a balance is established equal to the difference between the value of the assets and the present value of future benefits. This balance is a measure of the actuarial soundness of Plan D.

SECTION VI -- CONTRACT PROVISIONS VALUED

A. Issue Years 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, and 2005

B. Benefit Provisions

1. Full Benefits Plan

- | | |
|-----------------------------------|--|
| a. Michigan Public 4-Year College | Full benefits plan provides for tuition and mandatory fees for number of years specified in the contract, from one to four years. |
| b. Community College | If the beneficiary elects to attend a community college, MET will pay the community college tuition cost or the lowest university tuition cost, depending on options selected by the beneficiary. |
| c. Michigan Independent College | If the beneficiary elects to attend a Michigan independent college, the contract may be terminated, and MET will pay tuition to the independent college based on the weighted average tuition cost. If the payment is not made to the college, the amount will be based on the lowest tuition. |
| d. Out-of-State College | If the beneficiary elects to attend an out-of-state college, the contract may be terminated, and MET will pay to the college four annual installments based on the average tuition cost. If payment is not made to the college, the amount will be based on the lowest tuition. |
| e. Full Scholarship | If the beneficiary receives a full scholarship, the contract may be terminated, and MET will pay four annual installments based on the average tuition cost. |
| f. Death or Disability | If the beneficiary dies or has a disability which renders the beneficiary incapable of attending college, the contract may be terminated, and MET will pay one installment based on the lowest tuition cost. |
| g. No College | If the beneficiary does not attend college, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost. |

SECTION VI -- CONTRACT PROVISIONS VALUED

(continued)

2. Limited Benefits Plan

- | | |
|-----------------------------------|---|
| a. Michigan Public 4-Year College | Limited benefits plan provides for tuition and mandatory fees for the number of years specified in the contract, from one to four years. However, if tuition and mandatory fees exceed 105 percent of the weighted average tuition, the beneficiary must provide the excess. |
| b. Community College | If the beneficiary elects to attend a community college, MET will pay the community college tuition cost or the lowest university tuition cost, depending on options selected by the beneficiary. |
| c. Michigan Independent College | If the beneficiary elects to attend a Michigan independent college, the contract may be terminated, and MET will provide funds to the independent college based on the weighted average tuition at the schools with tuition less than 105 percent of the weighted average tuition. If payment is not made to the college, the amount will be based on the lowest tuition. |
| d. Out-of-State College | If the beneficiary elects to attend an out-of-state college, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost. |
| e. Full Scholarship | If the beneficiary receives a full scholarship, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost. |
| f. Death or Disability | If the beneficiary dies or has a disability which renders the beneficiary incapable of attending college, the contract may be terminated, and MET will pay one installment based on the lowest tuition cost. |
| g. No College | If the beneficiary does not attend college, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost. |

SECTION VI -- CONTRACT PROVISIONS VALUED

(continued)

3. Community College Plan

- a. Community College
Community college plan provides for tuition and mandatory fees for the number of years specified in the contract, from one to two years.
- b. Other Michigan College
If the beneficiary elects to attend a Michigan four-year public school or a Michigan independent college, the contract may be terminated, and MET will pay tuition to the college in two annual installments as needed based on the community college weighted average tuition cost in the year prior to the contract termination.
- c. Out-of-State College
If the beneficiary elects to attend an out-of-state college, the contract may be terminated, and MET will pay to the college two annual installments based on the community college average tuition cost. If payment is not made to the college, the amount will be based on the lowest tuition.
- d. Full Scholarship
If the beneficiary receives a full scholarship, the contract may be terminated, and MET will pay two annual installments based on the community college average tuition cost.
- e. Death or Disability
If the beneficiary dies or has a disability which renders the beneficiary incapable of attending college, the contract may be terminated, and MET will pay one installment based on the community college lowest tuition cost.
- f. No College
If the beneficiary does not attend college, the contract may be terminated, and MET will pay two annual installments based on the community college lowest tuition cost.

C. Transferability

If the contract is transferred to an older beneficiary, MET will charge additional costs, which include a transfer fee, the cost differential between beneficiary ages/grades and MET's loss of investment income.

SECTION VI -- CONTRACT PROVISIONS VALUED

(continued)

D. Monthly Purchase

The purchaser of a monthly purchase contract purchases a percent of educational benefits with every monthly purchase amount which is received by MET. A purchaser may choose to make monthly payments over 4, 7 or 10 years.